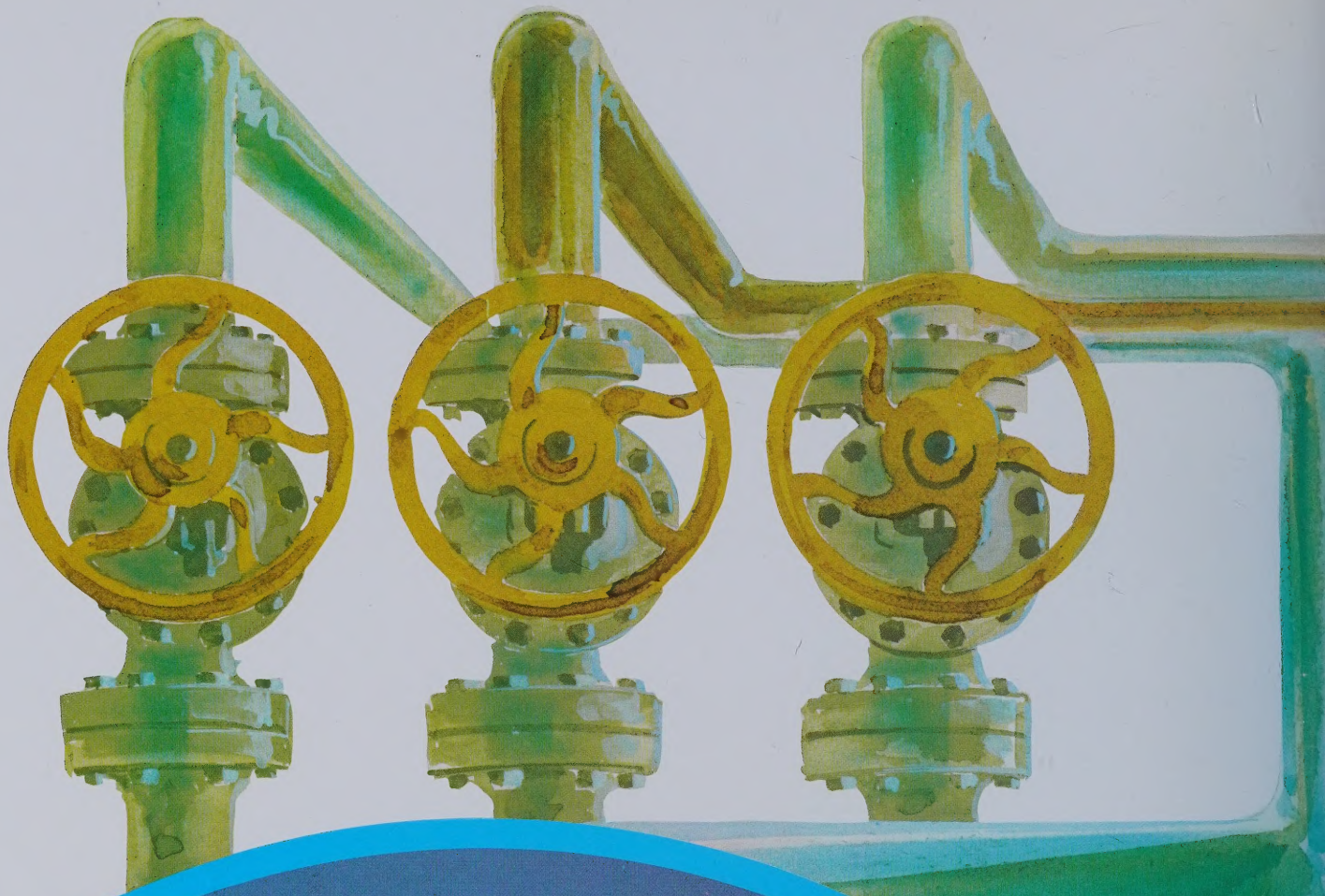






Aux actionnaires

Les résultats du deuxième trimestre continuent de se ressentir de la récession mondiale et de l'inflation. La faiblesse du marché s'est répercutée au niveau des principales divisions, à l'exception du traitement de l'information; les ventes consolidées se dégagent à \$94.3 millions, soit 12 p. cent de moins que l'année dernière.

Les effets de la récession sur la demande des consommateurs sont amplifiés par d'importants ajustements de stock, à divers stades de la commercialisation; cette situation a amené Polysar, comme de nombreux autres producteurs mondiaux de caoutchouc synthétique et de plastiques, à travailler à environ 60 p. cent de sa capacité normale.

Cette baisse d'activité explique la perte nette de \$0.9 million enregistrée pour le deuxième trimestre, malgré un profit de \$0.8 million réalisé en juin, qui est donc le premier mois bénéficiaire depuis septembre 1974. Le relèvement de l'économie, combiné à une réduction sensible des coûts, s'est traduit par une nette amélioration par rapport à la perte de \$4 millions enregistrée au premier trimestre.

La situation déficitaire actuelle contraste sensiblement avec les bénéfices sans précédent du dernier exercice, qui avait été marqué par des pénuries, des prix très élevés et une tendance généralisée des acheteurs à se couvrir après l'embargo pétrolier de la fin de 1973.

Les conditions favorables à une reprise économique dans les principaux pays industrialisés commencent à se faire jour. La relance des affaires, attendue impatiemment pour le second semestre de l'année, devrait provoquer un redressement du marché des caoutchoucs, des latex, des plastiques et des autres produits pétrochimiques. Pour Polysar, les résultats du troisième trimestre n'en seront pas moins quelque peu affectés par la faiblesse saisonnière de la demande, qui sera toutefois compensée, en partie, par la poursuite des efforts de compression des coûts.

Sur \$66.7 millions investis en immobilisations au cours du premier semestre, \$56.9 millions ont été consacrés à Petrosar Limitée. Pour cette même période, il est tenu compte dans la situation financière consolidée de Polysar de la nouvelle dette à long terme de \$54 millions de Petrosar.

Un programme d'investissement de \$90 millions a été approuvé au mois d'avril pour les immobilisations des trois prochains exercices; il porte sur la construction d'une usine de styrène monomère, à vocation mondiale, sur un terrain adjacent au complexe de Polysar, à Sarnia.

Pour financer la poursuite de son expansion à long terme et assurer la progression de sa rentabilité, la société a vendu dans le public, au début du deuxième trimestre, pour \$50 millions d'actions privilégiées à 8.4 p. cent. Le produit a été provisoirement ajouté au fond de roulement en attendant d'être investi en immobilisations.

Lors de l'assemblée générale annuelle du 17 juin 1975, M. D. Carlton Jones, président de Hudson's Bay Oil & Gas Company Limited, a été élu administrateur de la société; il remplace M. William S. McGregor, qui a remis sa démission après cinq années de services dévoués et constructifs au conseil.

Le président

Ian C. Rush.

BILAN CONSOLIDÉ

au 30 juin

(en milliers de dollars)
1975 1974

Actif à court terme	\$247 945	\$194 877
Immobilisations	240 512	139 723
Divers	34 498	45 340

\$522 955 **\$379 940**

Passif à court terme	\$135 822	\$108 201
Dettes à long terme	176 273	107 627
Impôts sur le revenu reportés	5 351	4 931
Quote-part des actionnaires minoritaires dans des filiales	10 845	3 745

328 291 **224 504**

Avoir des actionnaires		
Actions privilégiées	50 000	—
Actions ordinaires	30 000	30 000
Bénéfices non reportés	114 664	125 436

\$522 955 **\$379 940**

Polysar Limitée et filiales

ÉTAT CONSOLIDÉ DES BÉNÉFICES

(en milliers de dollars)

	Trimestre clos le 30 juin		Semestre clos le 30 juin	
	1975	1974	1975	1974
Ventes, produits et services	\$ 94 344	\$ 107 278	\$ 184 755	\$ 207 612
Bénéfices nets (pertes) avant impôts, quote-part des actionnaires minoritaires et postes extraordinaires	(78)	10 187	(3 393)	29 942
Impôts sur le revenu	930	2 062	1 587	4 588
Quote-part des actionnaires minoritaires	(36)	(34)	(35)	62
Bénéfices nets (pertes) avant postes extraordinaires	(972)	8 159	(4 945)	25 292
Postes extraordinaires	—	4 900	—	4 900
Bénéfices nets (pertes)	\$ (972)	\$ 3 259	\$ (4 945)	\$ 20 392
Actions ordinaires en circulation	2 000 000	2 000 000	2 000 000	2 000 000
BÉNÉFICES (PERTES) PAR ACTION ORDINAIRE (après les dividendes sur actions privilégiées)				
Avant postes extraordinaires	\$ (0.49)	\$ 4.08	\$ (2.95)	\$ 12.65
Après postes extraordinaires	\$ (0.49)	\$ 1.63	\$ (2.95)	\$ 10.20

ÉTAT CONSOLIDÉ DE L'ÉVOLUTION DE LA SITUATION FINANCIÈRE

(en milliers de dollars)

	Trimestre clos le 30 juin		Semestre clos le 30 juin	
	1975	1974	1975	1974
PROVENANCE DES FONDS				
Bénéfices (pertes) avant postes extraordinaires	\$ (972)	\$ 8 159	\$ (4 945)	\$ 25 292
Postes ne nécessitant pas de sorties de fonds	4 093	10 223	8 916	9 312
Fonds provenant de l'exploitation	3 121	18 382	3 971	34 604
Produit — dette à long terme	30 068	102	54 329	3 786
— actions privilégiées	48 300	—	48 300	—
Autres	2 620	3 447	4 540	3 543
	84 109	21 931	111 140	41 933
AFFECTATION DES FONDS				
Immobilisations et biens immobiliers	39 465	21 308	66 689	23 134
Dividendes	946	—	946	—
Autres	4,121	2 986	7 181	9 389
	44 532	24 294	74 816	32 523
AUGMENTATION (DIMINUTION) DU FONDS DE ROULEMENT	39 577	(2 363)	36 324	9 410
FONDS DE ROULEMENT AU DÉBUT DE L'EXERCICE	72 546	89 039	75 799	77 266
FONDS DE ROULEMENT À LA FIN DE L'EXERCICE	\$112 123	\$ 86 676	\$ 112 123	\$ 86 676

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POLYSAR LIMITED INTERIM REPORT

for the six months ending
June 30th, 1975

To the Shareholders

Results for the second quarter continued to reflect the adverse effects of world recession and inflation. Weak market conditions affected results in all major divisions except information processing resulting in consolidated sales at \$94.3 million, 12% below a year ago.

The effects of recession on final demand are being exaggerated by sizeable inventory corrections at several levels of trade with the result that Polysar, like many other world producers of synthetic rubber and plastics, has been operating at about 60% of capacity.

This reduced level of operations resulted in a net loss of \$0.9 million for the second quarter, although a profit of \$0.8 million was recorded in June, 1975, the first profitable month since September, 1974. The bottoming out of recession combined with important cost reductions resulted in a significant improvement over the \$4.0 million loss recorded in the first quarter.

The year-to-date loss position contrasts sharply with last year's performance when record profits were achieved under conditions of product scarcity, premium prices, and widespread protective buying following the oil embargo of late 1973.

Conditions favourable to an economic turnaround in the major industrial countries are beginning to appear. The business revival widely anticipated for the second half of this year should add buoyancy to the market for rubbers, latices, plastics and other petrochemicals. For Polysar, however, the third quarter is expected to reflect seasonally weak demand but its effect will be partially offset by continuing cost reduction efforts.

Of the \$66.7 million expenditures for fixed assets over the first half-year, \$56.9 million were related to Petrosar Limited. Over the same period, Polysar's consolidated financial position reflects the addition of \$54.0 million to Petrosar's long-term debt.

Approval was given in April to a \$90 million expenditure over the next three years to construct a world-scale styrene monomer plant to be located on land adjacent to Polysar's Sarnia complex.

To finance the continuing long-term expansion of the Company's assets and earning power, \$50 million of 8.4% preferred shares were sold to the public early in the second quarter. The proceeds were temporarily added to working capital pending their use in the Company's capital expenditure program.

At the Annual Meeting on June 17, 1975, Mr. D. Carlton Jones, President, Hudson's Bay Oil & Gas Company Limited, was elected a Director, replacing Mr. William S. McGregor who has retired after five years of dedicated and constructive service to the Board.

Ian C. Rush,
President.

CONSOLIDATED BALANCE SHEET

as at June 30, 1975

	(thousands of dollars)	
	1975	1974
Current Assets	\$247,945	\$194,877
Fixed Assets	240,512	139,723
Other Assets	34,498	45,340
	\$522,955	\$379,940
Current Liabilities	\$135,822	\$108,201
Long-term Liabilities	176,273	107,627
Deferred Income Taxes	5,351	4,931
Minority Interest in Subsidiaries	10,845	3,745
	328,291	224,504
Shareholders' Equity		
Preferred Shares	50,000	—
Common Shares	30,000	30,000
Retained Earnings	114,664	125,436
	\$522,955	\$379,940

unaudited
Polysar Limited and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

	(thousands of dollars)			
	Three months ended June 30		Six months ended June 30	
	1975	1974	1975	1974
Sales of products and services	\$ 94,344	\$ 107,278	\$ 184,755	\$ 207,612
Net income (loss) before income taxes, minority interest and extraordinary items	(78)	10,187	(3,393)	29,942
Income taxes	930	2,062	1,587	4,588
Minority interest	(36)	(34)	(35)	62
Net income (loss) before extraordinary items	(972)	8,159	(4,945)	25,292
Extraordinary items	—	4,900	—	4,900
Net income (loss)	\$ (972)	\$ 3,259	\$ (4,945)	\$ 20,392
Common shares outstanding	2,000,000	2,000,000	2,000,000	2,000,000
INCOME (LOSS) PER COMMON SHARE (After providing for preferred dividends)				
Before extraordinary items	\$ (0.49)	\$ 4.08	\$ (2.95)	\$ 12.65
After extraordinary items	\$ (0.49)	\$ 1.63	\$ (2.95)	\$ 10.20

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	(thousands of dollars)			
	Three months ended June 30		Six months ended June 30	
	1975	1974	1975	1974
SOURCE OF FUNDS				
Income (loss) before extraordinary items	\$ (972)	\$ 8,159	\$ (4,945)	\$ 25,292
Items not requiring a current outlay of funds	4,093	10,223	8,916	9,312
Funds from operations	3,121	18,382	3,971	34,604
Proceeds of—long-term debt	30,068	102	54,329	3,786
—Preferred shares	48,300	—	48,300	—
Other	2,620	3,447	4,540	3,543
	84,109	21,931	111,140	41,933
APPLICATION OF FUNDS				
Fixed assets and real estate	39,465	21,308	66,689	23,134
Dividends	946	—	946	—
Other	4,121	2,986	7,181	9,389
	44,532	24,294	74,816	32,523
INCREASE (DECREASE) IN WORKING CAPITAL	39,577	(2,363)	36,324	9,410
WORKING CAPITAL AT BEGINNING OF PERIOD	72,546	89,039	75,799	77,266
WORKING CAPITAL AT END OF PERIOD	\$ 112,123	\$ 86,676	\$ 112,123	\$ 86,676



POLYSAR LIMITÉE RAPPORT PROVISOIRE

du semestre clos le
30 juin 1975

Interim report

for six months ended June 30, 1976

Canor

To the Shareholders

Consolidated sales for the six months ended June 30, 1976 were \$221.4 million, an increase of nearly 20% from consolidated sales of \$184.7 million for the same period last year. Consolidated net income for the period was \$8.9 million, equal to \$3.40 per common share after provision of \$2.1 million for preferred dividends, compared with a loss of \$3.6 million, or \$2.27 per common share after preferred dividends of \$946,000, in the 1975 six-months period. Dividends of \$1.9 million at the rate of 95 cents per share were paid on the common shares during the period.

In the second quarter, sales of \$107.9 million were up 14% from the level achieved in the 1975 second quarter. The slower rate of year-to-year growth in sales and earnings than was recorded in the first quarter largely reflects slower economic recovery, the impact of the prolonged U.S. rubber industry strike which began in April, the continued unfavourable effect of the strong Canadian dollar, and changes in the mix of products sold.

During the second quarter, an issue of second preferred shares in the aggregate amount of \$15.1 million was taken up by the Canada Development Corporation. The transaction completes a CDC undertaking made in November, 1973 to provide Polysar with up to \$25 million for the financing of Petrosar. Our investment in Petrosar was increased by \$9.6 million for the year, bringing the company's cumulative investment in Petrosar to \$29.7 million.

Capital expenditures for the six months amounted to \$33.3 million, of which \$20.6 million was incurred for the world-scale styrene plant in Sarnia. Construction is now approximately 42% complete.

Early in July, the fixed assets and working capital of the E. Helman Company, Division of U.S. Industries, Inc., were acquired for a total consideration of approximately \$7 million. These facilities, located on Copley, Ohio, will significantly strengthen our position as a supplier of polystyrene resins to the North American plastics industry.

The Information Processing business had a satisfactory first half and made a modest contribution to profits. Progress is being made toward an orderly disposal of the remaining assets of the Building Systems business, including the Milton, Ontario land and plant facility. Net cash realization in the first half amounted to approximately \$9 million and we believe that the division's remaining assets will continue to be disposed of on a satisfactory basis.

We are concerned that the proposed Anti-Inflation Board regulations, if implemented, will have potentially severe unfavourable implications for Canadian profits and investment. We earnestly trust that the many responsible and thoughtful responses to the A.I.B. from all sectors of Canadian business will be considered and acted upon in the interest of the critically necessary expansion of opportunities for all Canadians.

Despite this uncertainty, and despite predictions of a somewhat slower rate of world economic recovery, with resultant weakness in some of our world-wide markets and product lines, we anticipate that consolidated results for the second half of the year will be significantly ahead of the comparable period last year.

August 3, 1976.

Ian C. Rush, President

Polysar Limited and subsidiary companies Consolidated Balance Sheet

as at June 30, 1976

Unaudited

(thousands of dollars)

	1976	1975
Current Assets	\$ 262,074	\$ 239,502
Fixed Assets	174,463	132,657
Other Assets	69,347	48,218
	<u>\$ 505,884</u>	<u>\$ 420,377</u>
Current Liabilities	\$ 173,397	\$ 124,155
Long-term Liabilities	107,980	94,679
Deferred Income Taxes	6,223	4,876
Minority Interest in Subsidiaries	614	645
	<u>\$ 288,214</u>	<u>\$ 224,355</u>
Shareholders' Equity		
Preferred Shares	65,100	50,000
Common Shares	30,000	30,000
Retained Earnings	122,570	116,022
	<u>\$ 505,884</u>	<u>\$ 420,377</u>

Note: 1975 quarterly figures have been restated to reflect adjustments recorded at year-end.

Polysar Limited and subsidiary companies

Consolidated Statement of Income

Unaudited

(thousands of dollars)

	Three months ended June 30		Six months ended June 30	
	1976	1975	1976	1975
Sales of products and services	\$ 107,927	\$ 94,218	\$ 221,369	\$ 184,712
Income (loss) before undnoted items	4,994	378	12,495	(2,510)
Income taxes	(1,925)	(1,130)	(3,450)	(1,112)
Minority interest	34	36	45	35
Income (loss) from continuing operations	3,103	(716)	9,090	(3,587)
Loss on discontinued business	9	—	(179)	—
Net income (loss)	\$ 3,112	\$ (716)	\$ 8,911	\$ (3,587)
INCOME (LOSS) PER COMMON SHARE	\$ 1.03	\$ (0.83)	\$ 3.40	\$ (2.27)
Common shares outstanding	2,000,000	2,000,000	2,000,000	2,000,000

Note: 1975 quarterly figures have been restated to reflect adjustments recorded at year-end.

Polysar Limited and subsidiary companies

Consolidated Statement of Changes in Financial Position

Unaudited

(thousands of dollars)

	Three months ended June 30		Six months ended June 30	
	1976	1975	1976	1975
SOURCE OF FUNDS				
Net income (loss)	\$ 3,112	\$ (716)	\$ 8,911	\$ (3,587)
Depreciation and amortization	4,864	5,359	9,689	10,084
Deferred income tax	1,032	(2,127)	564	(1,643)
Other	(372)	(97)	(543)	34
Funds from operations	8,636	2,419	18,621	4,888
Proceeds from issue of preferred shares	15,100	48,300	15,100	48,300
Proceeds of long-term debt	677	817	30,763	817
Other	871	364	871	669
	<u>25,284</u>	<u>51,900</u>	<u>65,355</u>	<u>54,674</u>
APPLICATION OF FUNDS				
Fixed assets and real estate	20,088	7,149	33,269	10,012
Reduction of long-term debt	1,551	3,278	17,356	5,230
Dividends	2,150	946	4,000	946
Investment in Petrosar	6,600	3,000	9,600	6,000
Other	2,035	(641)	4,196	1,549
	<u>32,424</u>	<u>13,732</u>	<u>68,421</u>	<u>23,737</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(7,140)	38,168	(3,066)	30,937
WORKING CAPITAL AT BEGINNING OF PERIOD	95,817	77,179	91,743	84,410
WORKING CAPITAL AT END OF PERIOD	\$ 88,677	\$ 115,347	\$ 88,677	\$ 115,347

Note: 1975 quarterly figures have been restated to reflect adjustments recorded at year-end.

Rapport provisoire

Pour le semestre arrêté le 30 juin 1976

AR27

Aux actionnaires

Les ventes consolidées du semestre arrêté le 30 juin 1976 atteignent \$221.4 millions, soit une augmentation de près de 20 p. cent par rapport aux \$184.7 millions réalisés au cours de la même période de l'exercice précédent. Les bénéfices nets consolidés de la période se dégagent à \$8.9 millions, soit \$3.40 par action ordinaire, après provision de \$2.1 millions pour les dividendes privilégiés, alors que le premier semestre de 1975 s'était soldé par une perte de \$3.6 millions, soit \$2.27 par action ordinaire, après provision de \$946 000 pour les dividendes privilégiés. Les dividendes versés au cours de la période sur les actions ordinaires atteignent \$1.9 million, à raison de 95c par action.

Les ventes du deuxième trimestre s'élèvent à \$107.9 millions, soit 14 p. cent de plus qu'en 1975. La progression des ventes et des bénéfices par rapport à la période correspondante de l'exercice précédent a été moins forte au deuxième trimestre qu'au premier, par suite surtout du ralentissement de la reprise économique, de la longue grève qui a débuté en avril dans l'industrie du caoutchouc aux États-Unis, de la gêne causée par la fermeté du dollar canadien et enfin d'une répartition différente des produits vendus.

Au cours du deuxième trimestre, une émission d'actions privilégiées de second rang a été souscrite par la Corporation de Développement du Canada pour un montant global de \$15.1 millions. Cette opération fait suite à la décision, prise en novembre 1973 par la CDC, de fournir à Polysar jusqu'à \$25 millions pour le financement de Petrosar. Notre placement dans Petrosar s'est accru de \$9.6 millions pour l'exercice, ce qui porte le placement total à \$29.7 millions.

Les investissements en immobilisations du premier semestre s'élèvent à \$33.3 millions, dont \$20.6 millions pour l'usine de production mondiale de styrène de Sarnia, où l'avancement des travaux est maintenant de 42 p. cent.

Au début de juillet, la Société a fait l'acquisition, pour \$7 millions environ, des immobilisations et du fonds de roulement de E. Helman Company, une division de U.S. Industries Inc.. Ces installations, situées à Copley, dans l'Ohio, renforceront sensiblement notre position de fournisseur de résines de polystyrène à l'industrie plastique nord-américaine. Dans le domaine de l'informatique, le premier semestre a été satisfaisant et a légèrement contribué aux bénéfices. La cession ordonnée des avoirs de la division des systèmes de construction, y compris les terrains et les usines de Milton, en Ontario, se poursuit. La liquidation de la première moitié de l'actif de cette division a permis de dégager environ \$9 millions et nous pensons que celle du reste se fera de façon satisfaisante.

Les règlements de la Commission anti-inflation, s'ils sont appliqués, auront à notre avis des répercussions très défavorables sur les bénéfices et les investissements des entreprises canadiennes.

Nous espérons très vivement que la pondération des nombreuses réactions qui se sont manifestées dans tous les secteurs de l'économie canadienne influencera la C.A.I. et conduira à des décisions favorables à l'élargissement des possibilités dont tous les Canadiens ont un besoin crucial.

Malgré ces incertitudes et les prévisions d'un ralentissement de la reprise économique mondiale, qui entraîneront des faiblesses sur certains de nos marchés et pour quelques-uns de nos produits, nous prévoyons que les résultats consolidés du second semestre seront sensiblement supérieurs à ceux de la même période de l'année dernière.

Le 3 août 1976.

Ian C. Rush, président

Polysar Limitée et filiales

Bilan consolidé

au 30 juin 1976

(non vérifié)

(en milliers de dollars)

	1976	1975
Actif à court terme	\$ 262 074	\$ 239 502
Immobilisations	174 463	132 657
Autres valeurs d'actif	69 347	48 218
	<u>\$ 505 884</u>	<u>\$ 420 377</u>
Passif à court terme	\$ 173 397	\$ 124 155
Passif à long terme	107 980	94 679
Impôts sur le revenu reportés	6 223	4 876
Quote-part des actionnaires minoritaires dans les filiales	614	645
	<u>\$ 288 214</u>	<u>\$ 224 355</u>
Avoir des actionnaires		
Actions privilégiées	65 100	50 000
Actions ordinaires	30 000	30 000
Bénéfices non répartis	122 570	116 022
	<u>\$ 505 884</u>	<u>\$ 420 377</u>

Note: Les chiffres trimestriels de 1975 ont été redressés pour tenir compte des ajustements de fin d'exercice.

Polysar Limitée et filiales

État consolidé des bénéfices

(non vérifié)

(en milliers de dollars)

	Trimestre arrêté le 30 juin		Semestre arrêté le 30 juin	
	1976	1975	1976	1975
Ventes, produits et services	\$ 107 927	\$ 94 218	\$ 221 369	\$ 184 712
Bénéfices (perte) avant les postes ci-dessous	4 994	378	12 495	(2 510)
Impôts sur le revenu	(1 925)	(1 130)	(3 450)	(1 112)
Quote-part des action- naires minoritaires	34	36	45	35
Bénéfices (perte) d'exploitation	3 103	(716)	9 090	(3 587)
Perte sur cessation d'activité	9	—	(179)	—
Bénéfices (perte) nets	\$ 3 112	\$ (716)	\$ 8 911	\$ (3 587)
BÉNÉFICES (PERTE) PAR ACTION ORDINAIRE	\$ 1.03	\$ (0.83)	\$ 3.40	\$ (2.27)
Nombre d'actions ordinaires en circulation	2 000 000	2 000 000	2 000 000	2 000 000

Note: Les chiffres trimestriels de 1975 ont été redressés pour tenir compte des ajustements de fin d'exercice.

Polysar Limitée et filiales

État consolidé de l'évolution de la situation financière

(non vérifié)

(en milliers de dollars)

	Trimestre arrêté le 30 juin		Semestre arrêté le 30 juin	
	1976	1975	1976	1975
PROVENANCE DES FONDS				
Bénéfices (perte) nets	\$ 3 112	\$ (716)	\$ 8 911	\$ (3 587)
Amortissements	4 864	5 359	9 689	10 084
Impôts sur le revenu reportés	1 032	(2 127)	564	(1 643)
Divers	(372)	(97)	(543)	34
Fonds provenant de l'exploitation	8 636	2 419	18 621	4 888
Produit de l'émission d'actions privilégiées	15 100	48 300	15 100	48 300
Produit de l'émission de titres de dette à long terme	677	817	30 763	817
Divers	871	364	871	669
	<u>25 284</u>	<u>51 900</u>	<u>65 355</u>	<u>54 674</u>
AFFECTATION DES FONDS				
Immobilisations	20 088	7 149	33 269	10 012
Réduction de la dette à long terme	1 551	3 278	17 356	5 230
Dividendes	2 150	946	4 000	946
Placement dans Petrosar	6 600	3 000	9 600	6 000
Divers	2 035	(641)	4 196	1 549
	<u>32 424</u>	<u>13 732</u>	<u>68 421</u>	<u>23 737</u>
AUGMENTATION (DIMINUTION) DU FONDS DE ROULEMENT	(7 140)	38 168	(3 066)	30 937
FONDS DE ROULEMENT AU DÉBUT DE L'EXERCICE	95 817	77 179	91 743	84 410
FONDS DE ROULEMENT À LA FIN DE L'EXERCICE	\$ 88 677	\$ 115 347	\$ 88 677	\$ 115 347

Note: Les chiffres trimestriels de 1975 ont été redressés pour tenir compte des ajustements de fin d'exercice.

POLYSAR LIMITED
interim report 2/77

for the six months ended June 30, 1977

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To the Shareholders:

Consolidated sales of \$277.8 million in the six months ended June 30, 1977 were 25% ahead of sales of \$221.4 million in the 1976 first half. Consolidated net income of \$11.1 million in the period was equal to \$4.20 per common share after preferred dividends of \$2.7 million. Net earnings in the 1976 six months period were \$8.9 million, or \$3.40 per common share after preferred dividends of \$2.1 million. Dividends at the rate of 60 cents for the quarter, and \$1.00 for the six months, were paid on the common shares.

The strength of foreign currencies relative to the Canadian dollar largely reflected in the first quarter, contributed significantly to improved earnings this year. Operations in the second quarter were considerably better than in the same period last year when results were unfavourably affected by generally slow economic conditions and the prolonged U.S. rubber industry strike. This year, demand for the Company's rubber products reflected a return to more normal market conditions and, in Europe, was particularly strong.

Earnings from the latex business were below expectations and, in styrene and resins, continued world overcapacity has resulted in price weakness which is not expected to be corrected for a considerable time. Formed plastics products in both North America and Europe, however, produced an improved earnings contribution compared with last year, and the Information Processing business had a satisfactory first half.

While income from operations in the second quarter restored the year-over-year shortfall experienced in the first three months, price/cost relationships remained below satisfactory levels in total. Consequently, despite the substantial sales increase in the six months, operating earnings for the half year were virtually unchanged from last year.

As a result of continuing review of the remaining assets of the former Building Systems business, a valuation provision has been made in the accounts to reflect the economic uncertainties in Canada which are having an unfavourable effect on anticipated realization values of real estate. The provision is included in "Loss on discontinued business" in the Consolidated Statement of Income. Efforts continue toward an orderly disposal of the assets.

The quarterly rate of earnings recorded in the first six months will not be sustained for the remainder of the year. The third quarter, seasonally the low period of the year, will be followed by a quarter affected markedly by start-up costs and initial losses of the new Sarnia styrene plant and of the Petrosar Limited world-scale petrochemical complex at Corunna, Ontario. Accordingly, despite expectations of satisfactory results in the aggregate from existing businesses, and in line with budget, operations in total are forecast to be only modestly above breakeven in the second half.

Sarnia, Canada
July 27, 1977

Ian C. Rush
President and Chief Executive Officer

Polysar Limited
Consolidated Balance Sheet

Unaudited

(thousands of dollars)

as at June 30

	1977	1976
ASSETS		
Current	\$ 253,624	\$ 262,074
Investment in Petrosar	75,849	29,866
Property, Plant and Equipment (net)	222,380	174,463
Other	39,975	39,481
	<u>\$ 591,828</u>	<u>\$ 505,884</u>
LIABILITIES & SHAREHOLDERS' EQUITY		
Current	\$ 203,852	\$ 173,397
Long-term Debt	165,041	111,288
Deferred Income Taxes	4,441	2,915
Minority Interest	846	614
Shareholders' Equity	217,648	217,670
	<u>\$ 591,828</u>	<u>\$ 505,884</u>

Polysar Limited

Consolidated Statement of Income

Unaudited

(thousands of dollars)

	Quarter ended June 30	Six months ended June 30		
	1977	1976	1977	1976
Sales	\$ 142,562	\$ 107,927	\$ 277,821	\$ 221,369
Income from operations	9,062	6,296	15,670	15,361
Deduct:				
Income taxes	2,649	1,925	4,893	3,450
Translation (gain) loss	(386)	560	(1,191)	2,866
Minority interest	27	(34)	128	(45)
Loss on discontinued business	509	(9)	744	179
	<u>2,799</u>	<u>2,442</u>	<u>4,574</u>	<u>6,450</u>
Net income	\$ 6,263	\$ 3,854	\$ 11,096	\$ 8,911
EARNINGS PER COMMON SHARE (after provision for dividends on preferred shares)-2,000,000 common shares outstanding	\$ 2.46	\$ 1.40	\$ 4.20	\$ 3.40

NOTE: 1976 quarterly figures have been restated to reflect year-end adjustments.

Polysar Limited

Consolidated Statement of Changes in Financial Position

Unaudited

(thousands of dollars)

Six months ended
June 30

	1977	1976
SOURCES OF WORKING CAPITAL		
Net income	\$ 11,096	\$ 8,911
Depreciation and amortization	10,959	9,689
Deferred income taxes	1,801	1,101
Interest-Petrosar debentures	(2,375)	(166)
Funds from operations	21,481	19,535
Increase in long-term debt	10,366	31,566
Issue of preferred shares	—	15,100
Decrease in long-term receivables	1,319	—
	<u>33,166</u>	<u>66,201</u>
APPLICATIONS OF WORKING CAPITAL		
Additions to property, plant and equipment	25,753	33,269
Reduction in long-term debt	5,970	17,356
Dividends	4,704	4,000
Investment in Petrosar	24,000	9,600
Long-term receivables	—	2,968
Other	778	2,074
	<u>61,205</u>	<u>69,267</u>
DECREASE IN WORKING CAPITAL	28,039	3,066
WORKING CAPITAL, BEGINNING OF PERIOD	77,811	91,743
WORKING CAPITAL, END OF PERIOD	<u>\$ 49,772</u>	<u>\$ 88,677</u>

rapport provisoire 2/77

pour le semestre arrêté au 30 juin 1977

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Aux actionnaires

En s'établissant à \$277,8 millions pour le semestre arrêté au 30 juin 1977, le chiffre d'affaires consolidé a augmenté de 25% par rapport aux \$221,4 millions du premier semestre de 1976. Les bénéfices nets consolidés pour les six premiers mois de 1977 se sont élevés à \$11,1 millions, soit \$4,20 par action ordinaire, après paiement de dividendes sur les actions privilégiées de \$2,7 millions. Au cours du semestre correspondant de 1976, les bénéfices nets s'étaient chiffrés à \$8,9 millions, soit \$3,40 par action ordinaire, après paiement de \$2,1 millions en dividendes sur les actions privilégiées. Un dividende de 60 cents pour le trimestre (\$1 pour le semestre) a été versé aux porteurs d'actions ordinaires.

Cette année, la fermeté des devises étrangères par rapport au dollar canadien, qui avait déjà eu des effets sensibles au cours du premier trimestre, a fortement contribué à l'amélioration des bénéfices. Durant le second trimestre, l'exploitation s'est révélée beaucoup plus satisfaisante qu'au cours de la même période de l'exercice précédent, au cours de laquelle le ralentissement de l'activité économique et la longue grève de l'industrie américaine du caoutchouc avaient eu un effet néfaste sur les résultats. Mais le retour à un fonctionnement plus normal du marché a entraîné une reprise de la demande de produits de caoutchouc de la Société, tout particulièrement en Europe.

Nos bénéfices dans le secteur du latex ont été inférieurs aux prévisions. Quant au styrène et aux résines, la surcapacité de production mondiale, en se prolongeant, a provoqué un fléchissement des prix qui ne devrait guère se renverser avant très longtemps. Néanmoins, la division des Produits ouvrés a enregistré des bénéfices plus satisfaisants que l'année dernière, tant en Amérique du Nord qu'en Europe, et le secteur de l'informatique a connu un bon premier semestre.

Même si les bénéfices d'exploitation du second trimestre ont fait oublier le mauvais rendement du premier trimestre par rapport à la période correspondante de l'exercice précédent, le rapport prix de vente/prix de revient n'a en général pas atteint un niveau satisfaisant. Par conséquent, malgré la vigoureuse augmentation du chiffre d'affaires du semestre, les bénéfices d'exploitation n'ont pratiquement pas évolué par rapport à l'exercice précédent.

Dans le cadre de l'évaluation des éléments d'actif invendus de l'ancienne division des Systèmes de construction, on a intégré à la comptabilité une provision pour évaluation, de façon à tenir compte des incertitudes de l'économie canadienne, qui ont un effet défavorable sur la valeur réalisable prévue de certains immeubles. Le poste Perte sur cessation d'activités de l'État consolidé des bénéfices y pourvoit. Enfin, on s'efforce toujours de procéder à une liquidation rationnelle de l'actif de cette division.

La Société n'enregistrera pas, d'ici la fin de l'exercice, des bénéfices aussi intéressants que ceux du premier semestre. Après un troisième trimestre qui est traditionnellement la période creuse de l'exercice, le quatrième trimestre devra essuyer les frais de mise en route et les pertes initiales de la nouvelle usine de styrène de Sarnia et du complexe pétrochimique mondial de Petrosar Limited à Corunna (Ontario). Ainsi donc, en dépit des résultats satisfaisants que l'on prévoit pour l'ensemble des secteurs déjà en exploitation, et conformément aux projections du budget, on ne s'attend, pour l'ensemble de l'exploitation, qu'à une rentabilité très modérée au cours du second semestre.

Sarnia (Canada)
Le 27 juillet 1977

Le président-directeur général,
Ian C. Rush

Polysar Limitée
Bilan consolidé

(non vérifié)

(en milliers de dollars)
au 30 juin

	1977	1976
ACTIF		
Actif à court terme	\$ 253 624	\$ 262 074
Placement dans Petrosar	75 849	29 866
Terrains, usines et équipement (net)	222 380	174 463
Divers	39 975	39 481
	<u>\$ 591 828</u>	<u>\$ 505 884</u>
PASSIF ET AVOIR DES ACTIONNAIRES		
Passif à court terme	\$ 203 852	\$ 173 397
Dette à long terme	165 041	111 288
Impôts sur le revenu reportés	4 441	2 915
Quote-part des actionnaires minoritaires	846	614
Avoir des actionnaires	217 648	217 670
	<u>\$ 591 828</u>	<u>\$ 505 884</u>

Polysar Limitée

État consolidé des bénéfices

(non vérifié)

	(en milliers de dollars)			
	Trimestre arrêté au 30 juin	1976	Semestre arrêté au 30 juin	1976
	1977	1976	1977	1976
Ventes	\$ 142 562	\$ 107 927	\$ 277 821	\$ 221 369
Bénéfices d'exploitation	9 062	6 296	15 670	15 361
Déduire:				
Impôts sur le revenu	2 649	1 925	4 893	3 450
Perte (profit) sur conversion de monnaies étrangères	(386)	560	(1 191)	2 866
Quote-part des actionnaires minoritaires	27	(34)	128	(45)
Perte sur cessation d'activités	509	(9)	744	179
	<u>2 799</u>	<u>2 442</u>	<u>4 574</u>	<u>6 450</u>
Bénéfices nets	\$ 6 263	\$ 3 854	\$ 11 096	\$ 8 911
BÉNÉFICES PAR ACTION				
ORDINAIRE (après provision pour dividendes sur actions privilégiées) - 2 000 000 d'actions ordinaires en circulation				
	<u>\$2,46</u>	<u>\$1,40</u>	<u>\$4,20</u>	<u>\$3,40</u>

NOTE: Les chiffres trimestriels de 1976 ont été redressés pour tenir compte des ajustements de fin d'exercice.

Polysar Limitée

État consolidé de l'évolution de la situation financière

(non vérifié)

	(en milliers de dollars)	
	Semestre arrêté au 30 juin	1976
	1977	1976
PROVENANCE DU FONDS DE ROULEMENT		
Bénéfices nets	\$ 11 096	\$ 8 911
Amortissements	10 959	9 689
Impôts sur le revenu reportés	1 801	1 101
Intérêts sur les débentures de Petrosar	(2 375)	(166)
Fonds provenant de l'exploitation	21 481	19 535
Augmentation de la dette à long terme	10 366	31 566
Produit de l'émission d'actions privilégiées	—	15 100
Réduction des créances à long terme	1 319	—
	<u>33 166</u>	<u>66 201</u>
AFFECTATION DU FONDS DE ROULEMENT		
Achats de terrains, usines et équipement	25 753	33 269
Réduction de la dette à long terme	5 970	17 356
Dividendes	4 704	4 000
Placement dans Petrosar	24 000	9 600
Créances à long terme	—	2 968
Divers	778	2 074
	<u>61 205</u>	<u>69 267</u>
DIMINUTION DU FONDS DE ROULEMENT	28 039	3 066
FONDS DE ROULEMENT AU DÉBUT DU SEMESTRE	<u>77 811</u>	<u>91 743</u>
FONDS DE ROULEMENT À LA FIN DU SEMESTRE	<u>\$ 49 772</u>	<u>\$ 88 677</u>

Established in 1942, Polysar Limited has become an important international force in its prime fields of synthetic rubber, latex, chemicals and plastics, as well as having international interests in computer time-sharing.

Polysar's future growth will come from the skills and knowledge that have characterised its past - advanced technology.....marketing innovation..... the research and development of new products and applications the conception and commercialization of new ideas.

With eighteen plants and twenty-two offices in sixteen countries, and representation in over seventy, Polysar has the world-wide stature and strength to achieve this growth.

The year in brief

	1975	1974
	thousands of dollars	
Net sales and other income	392,095	392,424
Income before the undernoted:	6,275	37,636
Income taxes	3,181	5,968
Loss on discontinued business	1,525	8,802
Extraordinary items	—	(4,750)
Net income	1,590	18,071
Dollars per common share	(0.73)	9.03
Return on shareholders' equity, %	0.8	12.0
Dividends on common shares	1,200	2,500
Dividends on preferred shares	3,046	—
Working capital	91,743	84,410
Capital spending	39,117	20,441
Net plant and equipment	150,417	132,985
Payroll and benefits	90,471	81,276
Number of employees at year-end	5,973	6,034

*Si vous désirez obtenir l'édition française
de ce rapport, veuillez écrire à:
Polysar Limitée, Secrétariat,
Sarnia, Ontario, Canada N7T 7M2*

President's message

The year 1975 was one of economic recession and inflation throughout the industrialized world, with the real output of the economies where Polysar does the bulk of its business down by more than 3 per cent. The effects of recession were most pronounced in the automotive and construction industries, important ultimate users of the company's rubber, plastics and petrochemical products. However, signs of recovery emerged in the second half, and these were matched by an encouraging trend in Polysar's results as the year progressed.

In these circumstances, a major effort was required to cope with problems of reduced demand and rising costs while at the same time proceeding with essential long-range programs. Despite a decline in physical volume of products sold, consolidated sales revenue was sustained at about the 1974 level through a more advantageous mix of products and selective price increases.

Even when combined with a stringent cost reduction program, these positive factors were insufficient to offset the impact of volume declines and the rising costs of materials, labour and other charges. Net income accordingly declined to \$1.6 million from a record \$18.1 million in 1974. Both years' results include the losses and write-downs associated with phasing out of the discontinued building systems business. These charges amounted to \$1.5 million and \$13.7 million in 1975 and 1974 respectively.

After providing for dividends on preferred shares, a loss of \$0.73 per common share was recorded in 1975 compared with earnings of \$9.03 in the previous year. Dividends paid on the common shares were \$1.2 million as against \$2.5 million in 1974.

Although results for the year 1975 as a whole were disappointing, the trend of performance since late 1974 has been increasingly favourable. From a loss of \$6.0 million in the last quarter of 1974, final quarterly results in 1975 improved from losses of \$2.9 and \$0.7 million in the first two quarters to profits of \$2.2 and \$3.0 million in the third and fourth quarters.

The turnaround in performance reflects the revival of demand from the low point of the 1974-75 recession as well as the benefits of the company-wide cost reduction program and a number of price adjustments made in the second half of 1975 to recoup substantial cost increases not recoverable in the earlier recessionary environment.

The momentum of recent earnings improvement is expected to carry through 1976 on the strength of further growth in the North American economy and a gradual business recovery in other parts of the industrialized world. While the company's Canadian operations will be influenced by effects arising from compliance with Canada's anti-inflation program, it should be remembered that a significant part of our earnings come from operations outside Canada.

In spite of the recessionary cycle, the past year saw further progress in the company's longer-range plans for the most rapid growth in its history. However, the significant decline in cash flow because of lower profits placed some restraints on capital spending.

All capital expenditures are scrutinized to ensure that the funds available are channelled into two highest priority areas: first, essential maintenance of existing plants to provide appropriate standards of product quality, efficiency and safety of operations, and protection of the environment; second, concentration on those projects needed to implement the company's long-range strategy. This latter priority ensures that there will be no interruption of committed, key investments made to secure long-term competitiveness and to meet the expected demand for the company's products as the world economy returns to more normal patterns of growth.

During the three-year period, 1972 - 1974, capital expenditures on acquisitions and additions to plant amounted to \$101 million. In contrast, in the period 1975 - 1977, capital spending on expansion and improvement of the company's production facilities is expected to increase very substantially, to a total of about \$180 million. In addition, some \$59 million will have been invested in Petrosar Limited, representing our major participation in basic, world-scale

petrochemical facilities designed to provide competitively-priced feedstocks for Polysar's downstream investments in rubber, latex, chemicals, and plastics.

Petrosar currently estimates that the financing requirement for the project will be about \$575 million. This represents a considerable increase over the \$430 million estimate of a year ago and chiefly reflects rising construction costs, additional working capital, and a possible delay of up to three months in start-up.

Petrosar is expecting to finance a major portion of its additional capital requirements through an increase in loans from the Canadian bank consortium which is providing the bulk of the debt financing.

In connection with Polysar's obligation to provide funds for its share in the equity financing of Petrosar, the Canada Development Corporation in November, 1973 undertook to provide Polysar with up to \$25 million. As part of this commitment, the CDC in late 1975 subscribed directly, at a cost of \$10 million, for one-third of the shares of Petrosar that Polysar had originally agreed to purchase. With Polysar's ownership interest thus reduced from 60% to 40%, our investment in Petrosar is now accounted for on an equity basis. The remaining \$15 million of the CDC's undertaking is expected to be provided during the first half of 1976 in exchange for subordinated preferred shares of Polysar.

The magnitude of Polysar's growth program required extensive use of external financing to supplement current and projected internal cash generation. The requirement for external funds is particularly heavy between now and mid-1977 when the two major investments, the Petrosar project and the company's own associated world-scale styrene plant — estimated to cost \$90 million — will be completed. Accordingly, two major financings totalling \$80 million were arranged in 1975, one a \$50 million preferred share issue sold to the public in Canada in the second quarter, the other a U.S. \$30 million debenture issue sold in the Eurodollar market late in the year, proceeds of which were received in early 1976. The company expects to carry out further financing in the latter part of 1976 or early 1977 to complete the program.

On December 26, we were saddened by the death of a long-time Board member, Ron W. Todgham, Chairman of Union Gas Limited, and formerly President of Chrysler Canada Limited. A Director for nineteen years, he was a member of both the Executive and Audit Committees. Mr. Todgham's wide business experience and spirited dedication to the company were an invaluable part of the eventful years which saw Polysar emerge as a large international company.

Last June, D. C. Jones, President of Hudson's Bay Oil & Gas Company Limited, was elected a member of the Board of Directors replacing William S. McGregor who resigned after five years of valuable service. In December, D. C. Morrison, Executive Vice President of the Canada Development Corporation, and F. W. Sellers, President of Spiroll Corporation Ltd., and a Director of CDC, also joined our Board.

The conditions of the past year demanded effective action in the market-place and relentless attention to cost reduction and maximum efficiency in utilization of capital. The response of all employees to these demands was indeed gratifying. It minimized the adverse impact of market forces, contributed greatly to the improving performance we have enjoyed since late 1974, and lends confidence to our expectations for a substantially better year in 1976.



Ian C. Rush, *President.*



Operations Review:

Polysar's international presence in the petrochemical industry is derived from operations in synthetic rubber, latex, chemicals and plastics. As is seen in the following table, rubber still dominates, accounting for 57% in 1975. However, through diversification the company's other thrusts in latex and plastics have advanced in importance in the past five years and together now account for 38% compared with 27% in 1971.

Sales Revenue:	1975	1974
	(millions of dollars)	
Rubber	\$222	\$215
Latex	65	66
Plastics	82	88
Chemicals & Other	19	18
Total	\$388	\$387

RUBBER: Although Polysar's market share in its principal selling areas remained constant or improved, sales of rubber were seriously affected by the recessionary conditions which prevailed through most of 1975. The tonnage of world-wide rubber sales in the first six months was 25% below the level of the comparable period in 1974. Despite successful programs to raise plant efficiencies and reduce costs, earnings from rubber were sharply reduced because of continued inflation of costs and underutilization of plants which, in the early months of the year, were operating at around 60% of capacity.

Production and sales improved through the latter months of 1975 as markets took on a better tone in response to reviving business confidence. The revival permitted the partial restoration of profit margins which had been severely eroded in the earlier period of recession. The trend of improved performance is expected to be sustained in 1976 in keeping with the gradual economic upswing.

General-purpose SBR rubber is the largest volume component in the Polysar line of rubber products. The market for such rubber is dominated by

requirements for the tire industry. It is a comparatively low growth market, sensitive to economic cycles and in particular to fluctuations in demand for new cars. Prior to revival in the automotive industry in late 1975, sales of SBR were highly depressed in both Canada and Europe. In the Canadian market, an additional impact was felt from a persistently high level of tire imports.

To achieve less reliance on commodity-type products, continuing emphasis was given to developing and adapting rubbers to meet customers' specific technical requirements, focussing on products with potential for higher margins and with less sensitivity to cyclical variations in economic activity.

Polysar's competitive position has been strengthening in the market for polybutadiene rubber used in high impact polystyrene. A doubling of the capacity of the polybutadiene plant in Sarnia is to be completed in the second quarter of 1976. Increased production will permit further penetration of this high growth segment of the plastics industry. It will also support growing requirements for polybutadiene rubber in tire applications, largely for the Canadian market.

World markets for butyl rubber were less affected during the recent period of general reduction in rubber demand. Higher prices and improvements in plant operations also favourably influenced Polysar's performance in this business segment. Progress was achieved in the commercialization of bromobutyl rubber, with good market penetration being achieved over a broad range of countries and applications for this specialty rubber.

The demand for high performance oil-resistant rubbers, which is closely tied to original equipment rubber products for the automotive industry, was down sharply in 1975. Notwithstanding the competitive environment, the wide range of products and services provided by Polysar and the attention to high quality in its line of nitrile rubbers enabled the company to maintain market share.

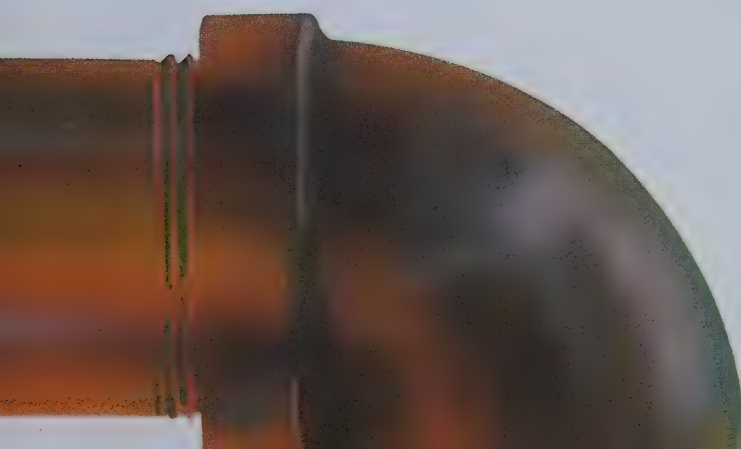
Polysar is the largest supplier of self-reinforcing elastomers to the footwear markets of Western Europe and North America. This sector of the industry also felt the impact of the recession, with selling prices declining considerably from the levels in effect in 1974 when there was a shortage of styrene monomer. Signs of an improvement in product margins were evident as demand stabilized late in 1975.

The company's custom-compounding operations, carried out at plants in Lindsay, Ontario and Barberton, Ohio, were similarly affected by the North American business recession. Some recovery of demand was evident during the last half of the year and marketing programs were successful in securing substantial new business. Polysar expects to increase further its share of this market which, at a growth rate of more than 10% per year, is among the fastest developing segments of the rubber industry.

LATEX: The exceptionally high rate of growth achieved for sales of Polysar latices in recent years was interrupted in 1975 by the world-wide decline in business activity. While sales volume in North America remained close to the 1974 level, European volumes fell by 10%.

Performance in North America was marked by a business upturn by mid-year, improved margins and relatively stable market conditions. In Europe, however, demand remained weak during the year because of a continued recessionary climate in the carpet and paper industries. The existence of considerable surplus capacity resulted in intense price competition.

Sales volume in Europe is expected to improve in 1976, although margins will continue to be affected by the pressure of overcapacity on market prices and by escalating costs. Steady growth is foreseen for markets in Canada and the U.S. Polysar's market share in floor covering and fine paper applications as well as in specialty uses is expected to increase and will be supported by the completion in 1976 of additional production capacity at the Chattanooga, Tennessee plant.



PLASTICS: Polysar's interests in the plastics industry consist of three principal operating groups: the polystyrene resin group with three locations in Canada and the U.S.; the North American packaging group with four facilities which fabricate a broad range of plastics products principally for the food packaging market; and Bellaplast, one of the largest manufacturers of plastic cups and containers in Western Europe.

The year 1975 began with the plastics industry in most parts of the world in a depressed condition. Adverse economic conditions had a severe impact on sales, production and earnings of the Division during that period. Overall performance was significantly below that of 1974, although improvement was noted as the year progressed and is continuing into 1976 in response to economic recovery.

Polystyrene resin sales volume during the first six months of the year was less than half that for the same period in 1974. Two of the three plants were shut down for three months in order to adjust inventory levels. While demand picked up and prices firmed during the last half of the year, operations were affected by a nine-week work stoppage at the Solar resin plant in Leominster, Massachusetts. By year-end, however, all units were operating at or near capacity, with profitability of the resin group being gradually restored.

North American fabrication group sales declined mainly because of the depressed state of the furniture industry which affected sales of moulded components. In spite of the recession, unit sales volume in food packaging remained level with 1974. The inherently more stable markets of food packaging and related products are thus being emphasized in Polysar's fabrication operations. With strong positions in several product fields and aggressive marketing and product development, the group is becoming a significant supplier of plastic containers serving food and industrial packaging needs in key regions of North America.



While substantial lay-offs in German industry affected the vending cup business, volume of the Bellaplast group of companies was maintained at a satisfactory level through broadening of the product line. This helped to sustain Bellaplast earnings in the face of the generally depressed economic environment. For 1976, higher demand for semi-rigid containers and cups in all market areas is anticipated as the economic climate improves.

CHEMICALS: The lower volume of demand for Polysar rubber, latex and plastics products during 1975 led to significant curtailments in the production of monomers for internal use. The styrene and butadiene units were shut down on several occasions for this reason.

Third-party sales of styrene were also depressed from both a volume and price standpoint because of the recession. The price of styrene in the U.S. dropped during the first six months of the year by as much as 14% but a firming trend was developing as the year closed. In early 1976, price increases of about 10% were instituted in the U.S., and the Canadian price followed to the extent of cost pass-through as determined under the anti-inflation regulations.

It appears that the prolonged recession will result in some discontinuity in the historical growth pattern of styrene-containing products. Demand in 1976 will, nevertheless, improve significantly and it is anticipated that North American styrene capacity will be insufficient to meet all demands in subsequent years.

In May the decision was made to proceed with construction in Sarnia of a world-scale styrene plant for which engineering and equipment procurement were already well advanced. Construction commenced immediately and by year-end had reached 17% completion. A decision was also taken to increase significantly the capacity of Polysar's butadiene extraction facilities to take advantage of the availability of additional feedstocks when Petrosar comes on stream in 1977.

Construction of the Petrosar project, the world-scale crude oil topping and naphtha cracking unit in which Polysar has a 40% equity interest, suffered some delay during 1975 due to the shortage of certain skilled trades and a six-week strike during the summer. Some catch-up was accomplished and at year-end construction was about 29% complete. It is anticipated that some sections will be started early in 1977 with all units operational by mid-year, close to the original schedule.

The peak capital requirement for the Petrosar plant, including financing for construction, start-up and working capital, has risen to approximately \$575 million, chiefly because of a 17% escalation in the projected cost of fixed assets, the impact of a possible delay of up to three months and higher working capital needs.

OTHER OPERATIONS: Sales revenue of Com-Share Limited, the international computer services group in which Polysar holds a majority interest, grew by 60% in 1975. However, the improved turnover was substantially offset by higher costs, including start-up charges related to the opening of new markets in Europe. Performance thus remained at about the break-even level first reached in late 1974. To achieve profitable growth, effort is being focussed on data management systems employing Com-Share's expertise in the areas of financial planning and corporate modelling. Additional offices have been opened in Canada, and in 1976 the North American and European computers are to be linked by a trans-Atlantic communications system, a major step in providing integrated services to multinational clients.

Responding to the decision in late 1974 to phase out of the building systems business, existing townhouse and apartment projects were completed and good progress was made in disposal of assets. By the end of 1975, the inventory of modules had been sold, the apartment facilities almost fully rented and 75% of the townhouse units sold. Negotiations are continuing for the sale of land and for the plant facility located at Milton, Ontario.

Financial review

Sales and Net Income: Sales and net income in 1975 were affected by the environment of recession and inflation experienced widely in the company's operations. Although the physical volume of sales declined, a more advantageous product mix and selective price increases sustained sales revenue at \$388 million, compared with \$387 million in 1974. However, competitive market conditions prevented full recovery of higher costs.

The company's continuing operations earned a profit of \$3.1 million which was reduced to a net income of \$1.6 million by losses on the discontinued building systems business. This compares with record net earnings of \$18.1 million achieved in 1974.

After provision for \$3.0 million in dividends on the preferred shares issued in April, a loss of \$0.73 per common share was incurred. Dividends paid on the outstanding common shares were \$1.2 million, or \$0.60 per share, compared with \$1.25 per share in 1974.

Notwithstanding an effective cost control program, cost of products sold as a ratio of sales revenue increased substantially over 1974. This reflected the severe impact of reduced production volume as well as unavoidable cost increases for such items as energy, raw materials and supplies, and the inflationary pressure on salaries, wages and purchased services. Selling, research and administrative expenses throughout the company were also subject to these pressures.

Although the average number of employees fell by 7%, total compensation including benefits amounted to \$90.5 million compared with \$81.3 million in 1974. This increase includes the full year effect of the prior year's escalation as well as increases applicable in 1975.

Taxes on income were \$3.2 million, about 50% of the provision in 1974. Because Polysar's subsidiaries operate in several countries with differing rates of tax, the relationship of income taxes to pre-tax profits can vary widely from year to year depending on the contribution of each subsidiary to the company's consolidated income. The earnings reduction in 1975 occurred mostly in areas where the company had relatively low tax obligations. The 1975 income tax

provision was, however, reduced by about \$0.5 million due to application of a current loss to a prior year's taxable income.

Substantial prior year losses remain available to offset taxes on future earnings, although these losses did not effectively reduce taxes in 1974 and 1975.

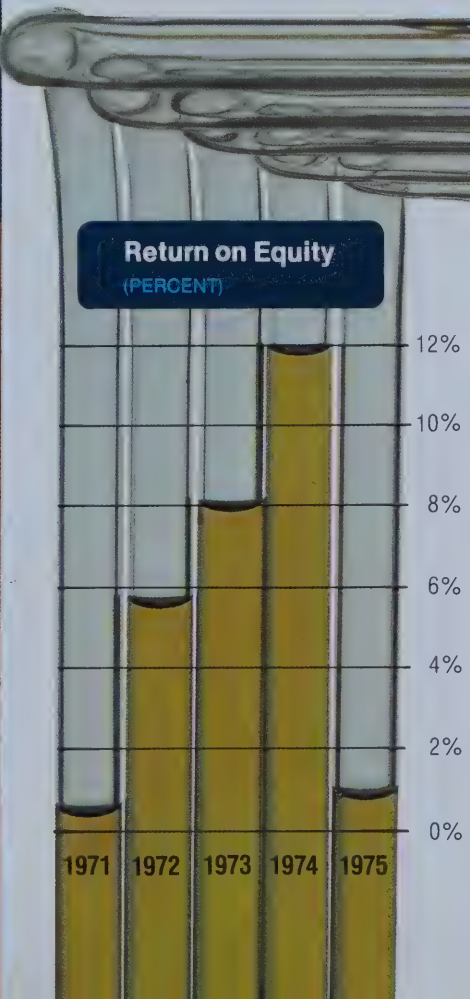
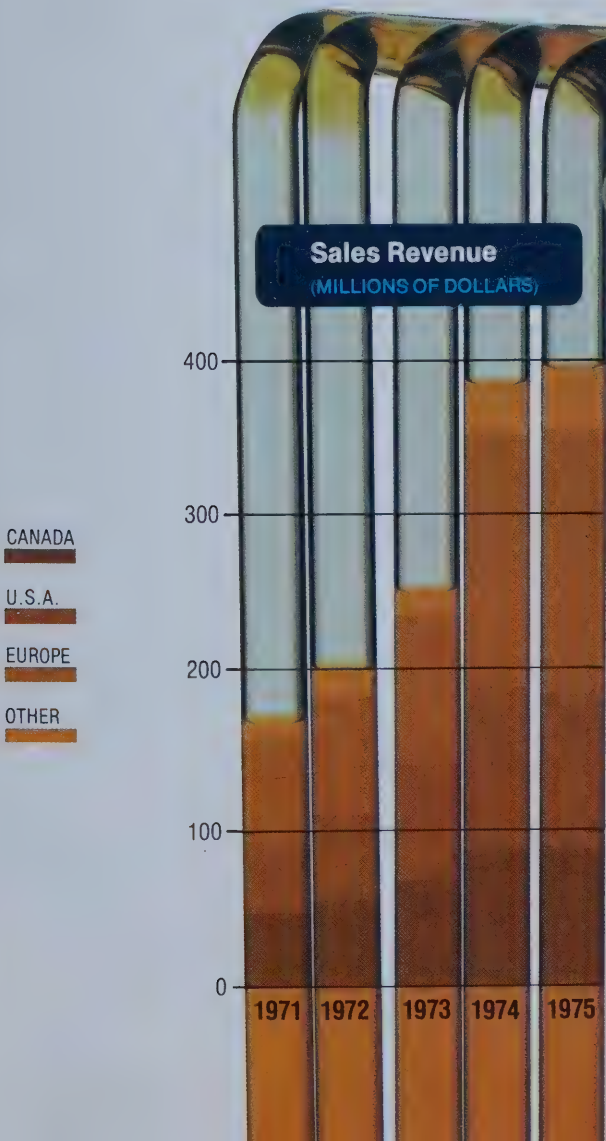
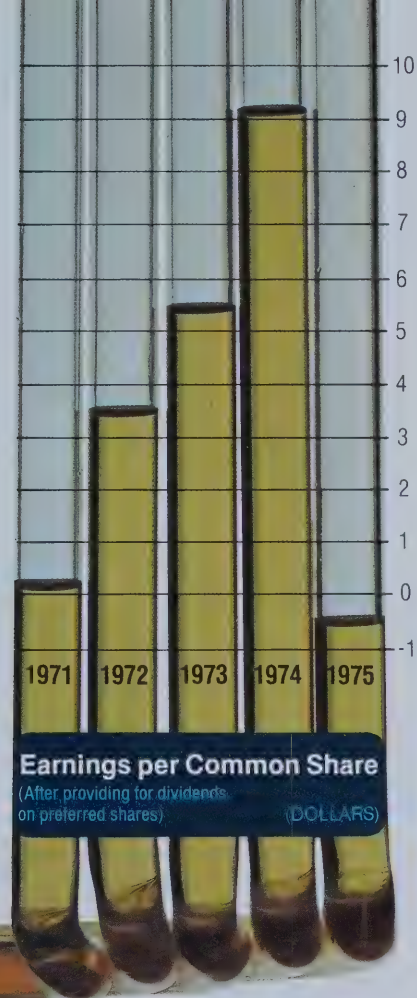
Financial Position: Net working capital at December 31, 1975 amounted to \$91.7 million, an increase of \$7.3 million during the year. The ratio of current assets to current liabilities was 1.8 to 1. Current assets declined in 1975 by \$16.0 million chiefly as the result of planned reductions in inventories. Current liabilities declined by \$23.3 million with short-term borrowing lower by \$20.7 million.

Included in working capital is Polysar's remaining investment in the building systems business valued at \$18.9 million. It includes land, unsold properties, plant and equipment all of which are expected to be divested at fair market values. Although further significant losses are not expected as the remaining assets are sold, losses of \$1.5 million associated with the phasing out of this business were absorbed in 1975.

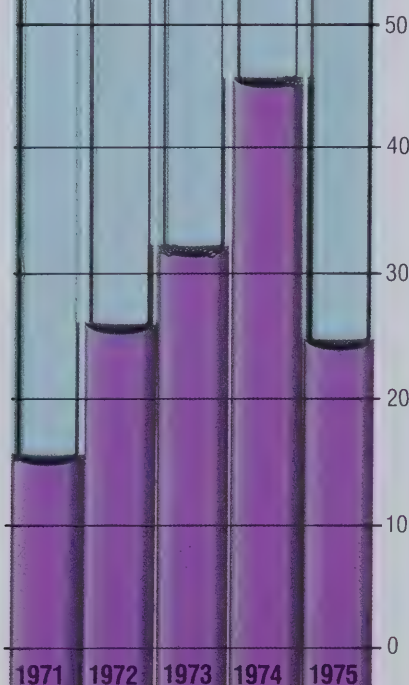
Funds generated from operations totalled \$24.2 million compared with \$45.6 million in 1974, essentially a reflection of the lower level of net income. To meet capital expenditures, debt repayment and other funds requirements, the company expanded its equity base in April, 1975 by issuing 2,000,000 preferred shares in Canada having a total par value of \$50 million. These shares were subsequently listed for trading on the principal Canadian stock exchanges. In December, a debenture issue of U.S. \$30 million was sold in the Eurodollar market, the proceeds of which were received in January, 1976 and are being used initially to reduce short-term borrowing. In late 1975 also, an earlier bank term loan of Swiss Fr. 25 million was extended to 1981.

Capital Expenditures: Exclusive of investment in Petrosar Limited, capital expenditures in 1975 for new facilities, plant improvements, environmental protection programs and other investments amounted to \$39.1 million, almost double the 1974 level. Of the total, \$18.8 million was spent on the new styrene plant in Sarnia. Other major projects included the

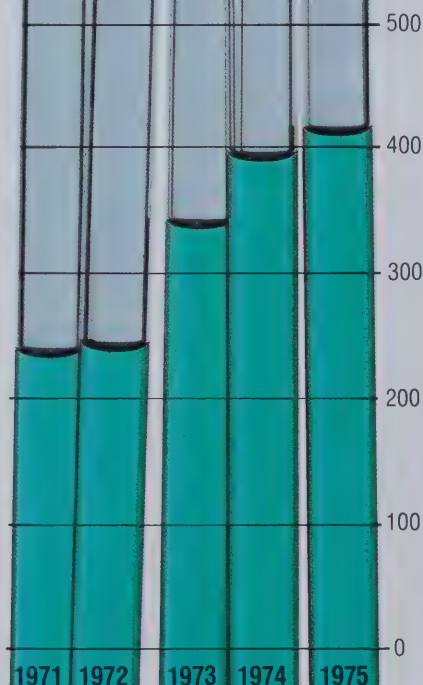
completion of additional latex capacity in Strasbourg, France, expansion of the polybutadiene rubber plant in Sarnia scheduled for completion in the second quarter of 1976, and initial work on conversion of the Sarnia steam and power plant from natural gas to oil. It is anticipated that spending on these and other projects will amount to \$80 million during 1976 and \$60 million in 1977. Of these amounts, nearly one-half will be for the styrene plant, with the remainder for rubber, latex and plastics facilities at various locations. In 1975 the company invested a further \$12 million in shares of Petrosar thereby completing its equity participation of \$20 million. Based on the currently estimated peak financing of \$575 million to complete the Petrosar project, Polysar estimates that its total investment will aggregate approximately \$59 million of which about \$39 million will be in the form of subordinated debentures to be issued by Petrosar during 1976 and 1977.



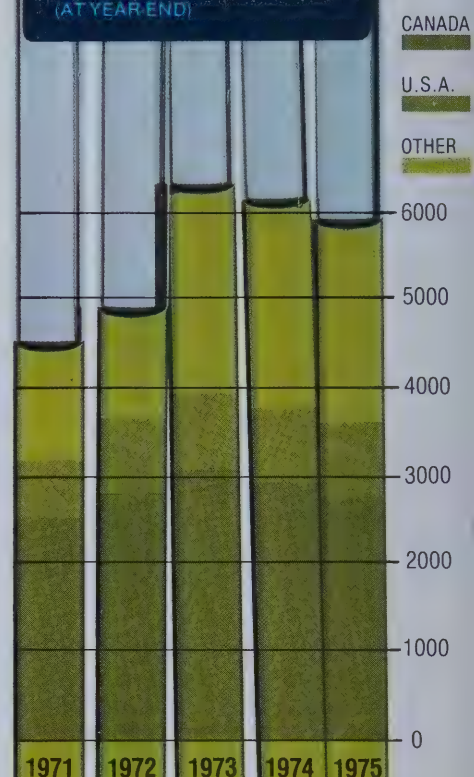
Cash Generation
(MILLIONS OF DOLLARS)



Total Assets
(MILLIONS OF DOLLARS)



Number of Employees
(AT YEAR-END)



Consolidated financial statements

Year ended December 31, 1975

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Polysar Limited (the Company) and its subsidiaries conform with accounting principles generally accepted in Canada. This summary of significant accounting policies of the Company and its subsidiary companies is presented to assist the reader of the financial statements contained in this report.

Principles of Consolidation: These consolidated financial statements incorporate the financial position, the operating results and changes in financial position of the Company and its subsidiary companies. All intercompany balances and transactions have been eliminated on consolidation.

Acquisitions of subsidiaries have been accounted for on a purchase basis and the results of their operations have been included in the consolidated financial statements from the respective dates on which control was obtained.

Foreign Exchange: Consolidation of non-Canadian current assets and liabilities has been made at rates of exchange in effect at the balance sheet dates, all other assets, applicable depreciation, and non-current liabilities at the rates prevailing when the assets were acquired or the liabilities incurred; and income and expense, except depreciation, at rates in effect during the year. Gains or losses resulting from such translation practices are reflected in the consolidated statement of income and retained income.

Investment in Other Companies: Investments in other companies, where less than a 50% interest has been acquired, have been accounted for on the equity method.

Property, Plant and Equipment: Depreciation of plant and equipment is based on the estimated useful life of the assets, calculated on the straight-line or diminishing balance method as considered most appropriate for each asset.

Deferred Charges, Patents and Technology: Pre-production expenses incurred in connection with major new production facilities are being amortized on the straight-line method over a period generally not

exceeding five years from commencement of production. Other deferred charges are absorbed against income in the periods to which they are applicable. Patents and technology are amortized on the straight-line method over their estimated economic useful life, generally not in excess of five years. Research expenditures are charged against operations as incurred, net of government grants related thereto.

Goodwill: Goodwill arising on acquisitions prior to 1974, provided its value has not been impaired, is not being amortized. Subsequently acquired goodwill is being amortized over the period deemed to be benefited by the expenditures but not to exceed twenty years.

Issue Expenses of Preferred Shares: The cost of raising equity capital is amortized to retained earnings over a reasonable period depending on the terms and conditions of the issue.

Income Taxes: For the purpose of computing taxable income, legislation in Canada and certain other countries permits the deduction of certain items in amounts which differ from those charged in the financial statements. Income taxes in the consolidated statement of income and retained income include taxes deferred as a result of these timing differences as well as taxes currently payable.

Withholding taxes on dividends expected to be paid to the Company by its subsidiary companies out of current earnings are included in income tax expense for the year.

Current income taxes on a consolidated basis are computed on the operating results of many domestic and foreign subsidiaries, some of which sustained operating losses while others earned income subject to varying rates of tax. The Company and its subsidiaries do not give recognition to the potential tax benefit of losses until realized. On a consolidated basis, these recurring tax benefits, when realized, are not considered to be extraordinary in nature and are reflected as reductions of current income taxes. Substantial tax offsets are available for future years.

Polysar Limited and subsidiary companies

Consolidated balance sheet

As at December 31, 1975

ASSETS

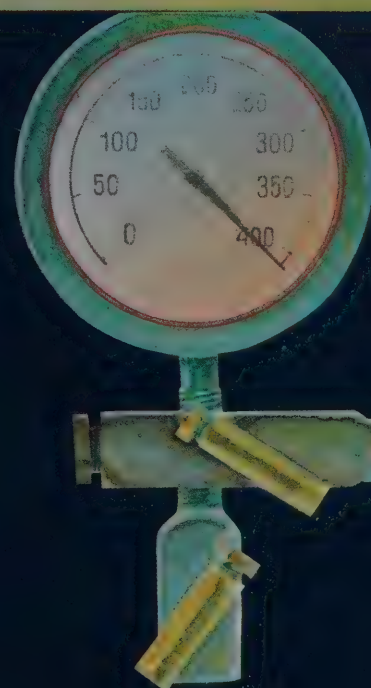
	1975	1974
	thousands of dollars	
CURRENT		
Cash	\$ 2,615	\$ 1,623
Short-term investments, at cost which approximates market	4,797	9,928
Accounts receivable	94,422	85,182
Inventories (Note 1)	85,162	103,328
Real estate investments (Note 2)	18,911	21,220
Prepaid expenses	3,522	4,174
Total Current Assets	209,429	225,455
LONG-TERM RECEIVABLES	8,463	3,841
INVESTMENTS IN OTHER COMPANIES		
Petrosar Limited (Note 3)	20,100	8,100
Other	9,054	8,567
PROPERTY, PLANT AND EQUIPMENT (Note 4)	150,417	132,985
OTHER, at cost less amortization		
Deferred charges	2,693	3,829
Patents and technology	1,037	2,317
Goodwill	12,844	12,856
Issue expenses of preferred shares	1,478	—
Total Assets	<u>\$415,515</u>	<u>\$397,950</u>

See accompanying summary of significant accounting policies and notes to the consolidated financial statements.

On behalf of the Board

Ian C. Rush, *Director*

David C. H. Stanley, *Director*



LIABILITIES

	1975	1974
	thousands of dollars	
CURRENT		
Short-term loans	\$ 52,871	\$ 73,528
Accounts payable and accrued liabilities	48,822	49,343
Income and other taxes	5,259	3,743
Long-term debt due within one year	9,683	14,431
Dividend payable	1,051	—
Total Current Liabilities	117,686	141,045
LONG-TERM DEBT (Note 5)	93,733	99,092
DEFERRED INCOME TAXES	5,659	6,519
MINORITY INTEREST IN SUBSIDIARIES	658	679
Total Liabilities	217,736	247,335

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 7)	80,000	30,000
RETAINED INCOME	117,779	120,615
Total Shareholders' Equity	197,779	150,615
	<u>\$415,515</u>	<u>\$397,950</u>

Auditors' report to shareholders

We have examined the consolidated balance sheet of Polysar Limited and subsidiary companies as at December 31, 1975 and the consolidated statements of income and retained income and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which have been applied on a basis consistent with that of the preceding year, as restated as set forth in Note 3 and after giving effect to the change in presentation described in Note 8 to the consolidated financial statements.

Toronto, Canada
February 12, 1976

Peat, Marwick, Mitchell & Co.
Chartered Accountants.

Consolidated statement of income and retained income

Year ended December 31, 1975

	1975	1974
	thousands of dollars	
INCOME		
Sales	\$387,916	\$386,796
Other (Note 13)	<u>4,179</u>	<u>5,628</u>
	<u>392,095</u>	<u>392,424</u>
EXPENSE		
Cost of sales	328,236	300,070
Selling, administration and research	43,429	38,477
Interest on long-term debt	9,233	9,878
Interest on short-term debt	5,965	4,427
Currency translation (gain) loss	<u>(1,043)</u>	<u>1,936</u>
	<u>385,820</u>	<u>354,788</u>
Income before the undernoted items	6,275	37,636
Income taxes (Note 6)	3,181	5,968
Minority interest	<u>(21)</u>	<u>45</u>
Income from continuing operations	3,115	31,623
Loss on discontinued business (Note 8)	<u>1,525</u>	<u>8,802</u>
Income before extraordinary items	1,590	22,821
Extraordinary items, net (Note 9)	<u>—</u>	<u>(4,750)</u>
NET INCOME FOR THE YEAR	<u>1,590</u>	<u>18,071</u>
RETAINED INCOME AT BEGINNING OF THE YEAR	<u>120,615</u>	<u>105,044</u>
	122,205	123,115
Dividends	4,246	2,500
Amortization of issue expense of preferred shares . . .	<u>180</u>	<u>—</u>
RETAINED INCOME AT END OF THE YEAR	<u>\$117,779</u>	<u>\$120,615</u>
INCOME (LOSS) PER COMMON SHARE		
Before extraordinary items	\$(.73)*	\$11.41
Extraordinary items	<u>—</u>	<u>(2,38)</u>
Net income (loss) per common share	<u>\$(.73)*</u>	<u>\$ 9.03</u>

*After preferred dividends of \$3,046 thousand

See accompanying summary of significant accounting policies and notes to the consolidated financial statements.

Consolidated statement of changes in financial position

Year ended December 31, 1975

	1975	1974
	thousands of dollars	
SOURCE OF FUNDS		
Current Operations		
Income before extraordinary items	\$ 1,590	\$ 22,821
Items not requiring a current outlay of funds		
Depreciation	20,122	19,536
Amortization	3,014	2,054
Deferred income taxes	(860)	1,441
Other	291	(203)
Funds from operations	24,157	45,649
Proceeds from issue of preferred shares	48,342	—
Increase in long-term debt	3,699	—
Proceeds from disposal of property, plant and equipment	766	501
Reclassification of real estate investments	—	8,440
	<u>76,964</u>	<u>54,590</u>
APPLICATION OF FUNDS		
Purchase of property, plant and equipment	38,320	20,186
Investment in Petrosar	12,000	8,100
Other investments	797	—
Long-term receivables	4,622	707
Reduction of long-term debt	9,058	13,601
Goodwill	—	255
Dividends	4,246	2,500
Costs attendant to phase out building systems division ..	—	1,400
Other	588	697
	<u>69,631</u>	<u>47,446</u>
INCREASE IN WORKING CAPITAL	7,333	7,144
WORKING CAPITAL AT BEGINNING OF YEAR	<u>84,410</u>	<u>77,266</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 91,743</u>	<u>\$ 84,410</u>

See accompanying summary of significant accounting policies and notes to the consolidated financial statements.

Notes to consolidated financial statements

Year ended December 31, 1975

1. Inventories

	1975	1974
	thousands of dollars	
Inventories consist of:		
Raw Materials	\$ 19,670	\$ 29,711
Finished Products	50,993	60,067
Other	14,499	13,550
	<u>\$ 85,162</u>	<u>\$ 103,328</u>

Inventories are generally stated at the lower of cost and net realizable value on the first-in-first-out (FIFO) method. In 1974 certain subsidiaries changed their method of calculating cost to the last-in-first-out (LIFO) method. Had the FIFO method been used inventories would have been \$2.9 million and \$3.5 million higher than reported at December 31, 1975 and 1974 respectively.

2. Real Estate Investments

Real estate investments consist of all the assets of the building systems division of the Company net of related mortgages of \$4.7 million at December 31, 1975 (\$4.1 million at December 31, 1974). In 1974 the Company decided that this division should be phased out and as the disposal of its net assets is being actively pursued, they have been classified as a current asset.

The land in these investments is valued at cost including related carrying charges while the apartment buildings, townhouses, modular housing units and manufacturing facilities are stated at estimated net realizable value, which is lower than cost.

3. Investment in Petrosar Limited

As an incorporating shareholder, the Company agreed to subscribe for 60% of an aggregate of \$50 million of shares of Petrosar Limited (Petrosar) and to date has invested \$20.1 million. To assist the Company in making its equity investment in Petrosar, Canada Development Corporation (CDC) which owns all of the outstanding common shares of the Company undertook to provide up to \$25 million. As part of this undertaking CDC has, for an aggregate of approximately \$10 million, subscribed for approximately 20% of the shares to be issued by Petrosar. The balance of the Company's subscription has been terminated with the result that the Company's ownership in Petrosar has been reduced to 40% in January 1976. The remaining \$15 million of the CDC undertaking is expected to be provided during 1976 in exchange for subordinated preferred shares of Polysar.

It is presently estimated that the cost of the Petrosar project including financing during construction, start-up and working capital requirements will approximate \$575 million. Contracts for the project are primarily on a cost plus basis. The Company estimates that its investment in Petrosar will aggregate approximately \$59 million made up of \$20 million of shares and \$39 million of subordinated debentures.

The shareholders of Petrosar have undertaken to make additional funds available to that Company to the extent necessary to complete construction of the project. The Company is obligated to provide 48% of any additional funds that may be required.

CDC has guaranteed the performance by the Company of certain of its obligations under the bank financing arrangements. The amount of such guarantee may vary but is limited to a maximum of \$75 million.

As a result of the foregoing change in the Company's share ownership in Petrosar, it is no longer consolidated in the accounts of the Company, but is shown as an investment and is accounted for on the equity basis.

The financial statements of the Company at December 31, 1974 have been restated to reflect this change. Below are the condensed balance sheets of Petrosar.

	December 31	
	1975	1974
	thousands of dollars	
Current Assets	\$ 3,669	\$ 3,838
Property, Plant and Equipment		
under Construction	202,028	51,083
Other Assets	3,788	1,110
	<u>\$ 209,485</u>	<u>\$ 56,031</u>
Current Liabilities	\$ 21,885	\$ 12,449
Long-term Debt	142,100	28,082
Capital Stock	43,500	13,500
Contributed Surplus	2,000	2,000
	<u>\$ 209,485</u>	<u>\$ 56,031</u>

4. Property, Plant and Equipment

The net carrying value of property, plant and equipment is as follows:

	1975	1974
	thousands of dollars	
Land	\$ 4,062	\$ 4,062
Plant and Equipment	383,315	346,898
Accumulated Depreciation	(236,960)	(217,975)
	<u>\$ 150,417</u>	<u>\$ 132,985</u>

Certain office and production facilities are held under long-term leases, which include various purchase options. The cost of these assets, amounting to approximately \$26.8 million at December 31, 1975, and the related long-term debt have been capitalized.

5. Long-term Debt

	1975	1974
	thousands of dollars	
Loans repayable in:		
French francs — due 1976 to 1980, interest varying from 7.25% to 9.25%	\$ 2,629	\$ 3,409
Belgian francs — due 1976 and 1977, interest at 6.5%, secured by mortgage on certain land and buildings . .	2,366	3,535
— due 1976 to 1992, interest at 7.88% and 9.86%, under lease	8,275	10,735
Swiss francs — due 1981, interest at 7.5%	6,244	8,009
German marks — due 1976 to 2004, interest varying from 2.5% to 12.25%	20,047	20,959
U.S. dollars — due 1976 to 1985, interest at 9.75%, under lease	9,606	10,229
— due 1976 to 1989, interest varying from 5% to 13%, secured by mortgages on certain fixed assets	4,493	5,383
Sinking Fund Debentures — Canadian dollars		
Series A, interest at 7.5% maturing 1987	12,300	13,000
Series B, interest at 9% maturing 1993	35,000	35,000
Other	2,456	3,264
	<u>103,416</u>	<u>113,523</u>
Less portion of long-term debt due within one year included in current liabilities	9,683	14,431
	<u>\$ 93,733</u>	<u>\$ 99,092</u>

Sinking fund requirements and the portion of long-term debt due in each of the next five years are (in millions): 1976 - \$9.7, 1977 - \$21.5, 1978 - \$6.1, 1979 - \$4.4, 1980 - \$4.1.

If exchange rates prevailing at December 31, 1975 were to prevail during the years 1976 to 2004 the amount of long-term debt less long-term receivables would increase by approximately \$4.8 million.

On December 17, 1975 the Company entered into an agreement with underwriters providing for the sale of U.S. \$30 million principal amount of its 10% Debenture Series C due January 15, 1982 for approximately U.S. \$29.2 million after deducting the estimated expenses of issue. The proceeds of the issue were received by the Company on January 15, 1976.

6. Income Taxes

Income taxes shown in the Consolidated Statement of Income and Retained Income have been reduced by approximately \$450,000 (1974 - nil) due to the application of a current loss to a prior year's taxable income.

Substantial future tax offsets are available from domestic and foreign operations.

7. Capital Stock

	1975	1974
	thousands of dollars	
First Preferred Shares — par value \$25 issuable in series		
Authorized — 10,000,000 shares		
Issued and fully paid — 2,000,000		
8.40% cumulative redeemable, non-voting First Preferred Shares Series A	\$50,000	
Common Shares — no par value		
Authorized — 3,000,000 shares		
Issued and fully paid — 2,000,000 shares	<u>30,000</u>	<u>30,000</u>
	<u>\$80,000</u>	<u>\$30,000</u>

Series A Preferred Shares are not redeemable prior to April 1, 1982 but thereafter will be redeemable at the option of the Company at a redemption price of \$27 per share reducing thereafter to par in 1985. During each month beginning April, 1982 the Company is obliged to purchase for cancellation 5,000 of these shares if and to the extent that they are available for purchase at prices not exceeding \$25 per share. The Company is obliged during the 30 day period ending March 31, 1982 to invite tenders from all holders of these shares for the purchase of their shares at \$25 per share plus accrued and unpaid dividends and to purchase shares so tendered on April 1, 1982 except to the extent that such purchase would be contrary to any applicable law.

8. Loss on Discontinued Business

Operating losses of the building systems division have been presented as a loss on discontinued business in 1975 and the 1974 statement of income and retained income has been reclassified accordingly.

9. Extraordinary Items

1974 losses of \$4,750,000 reflect a write down to estimated net realizable value of the building systems division's manufacturing facilities and provisions for costs attendant to the phase out of this division aggregating \$4,900,000 less a gain of \$150,000 on sale of investment.

10. Commitments

At December 31, 1975 the Company and its subsidiaries were committed to make capital expenditures approximating \$44.3 million.

11. Contingencies

The Company is or may become a defendant with others in several legal actions claiming an aggregate of \$6 million in respect of product liability. It is management's opinion that these claims will not be sustained.

12. Pension Plans

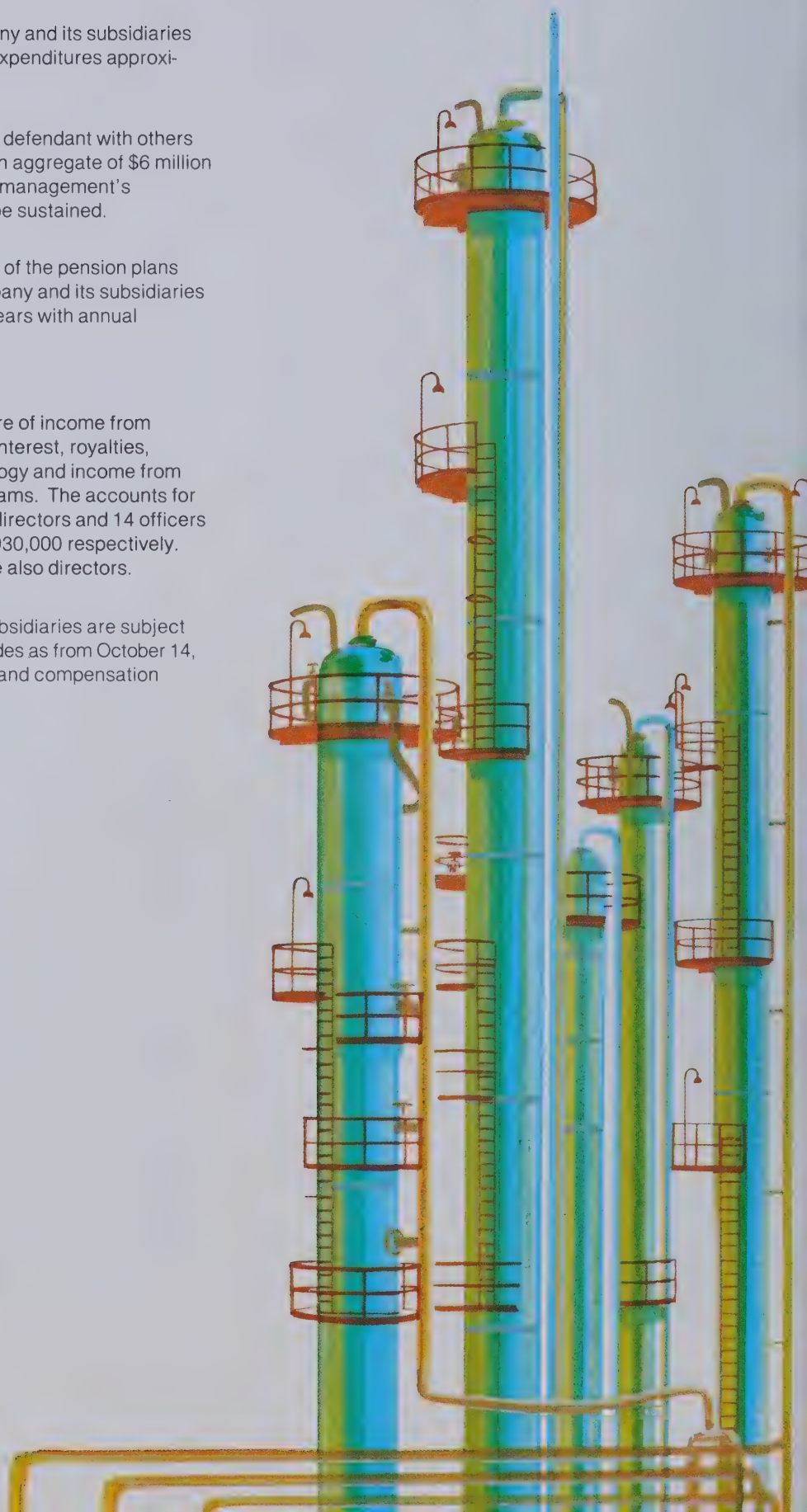
The unfunded past service liability of the pension plans relating to employees of the Company and its subsidiaries is being funded over the next 15 years with annual charges against operations of approximately \$493,000.

13. Supplementary Information

Other income includes equity share of income from investments in other companies, interest, royalties, proceeds from the sale of technology and income from participation in government programs. The accounts for 1975 include remuneration of 14 directors and 14 officers of the Company of \$63,000 and \$930,000 respectively. Two of the Company's officers are also directors.

14. Anti-Inflation Program

The Company and certain of its subsidiaries are subject to the Anti-Inflation Act which provides as from October 14, 1975 a restraint on profit margins and compensation to employees.



Ten year review:

in millions of dollars except where noted

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
Operating results										
Net sales and other income	392.1	392.4	261.4	205.6	174.9	157.2	160.5	144.3	128.0	127.5
Income before the undernoted	6.3	37.6	17.2	11.7	1.1	9.6	19.9	11.3	6.4	13.5
Income taxes	3.2	6.0	4.6	3.0	(0.5)	0.6	5.5	3.0	1.5	2.3
Loss on discontinued business	1.5	8.8	—	—	—	—	—	—	—	—
Extraordinary items	—	4.7	1.5	1.3	0.8	1.5	—	0.8	—	—
Net income	1.6	18.1	11.1	7.4	0.8	7.6	14.3	7.5	4.9	11.2
Performance										
Earnings per common share \$	(0.73)	9.03	5.55	3.69	0.40	3.79	7.16	3.74	2.43	5.61
Return on sales %	0.4	4.7	4.2	3.6	0.5	4.8	8.9	5.2	3.8	8.8
Return on shareholders' equity %	0.8	12.0	8.2	5.9	0.7	6.4	12.6	7.1	4.7	11.2
Income related data										
Depreciation provided	20.1	19.5	15.9	15.0	13.8	13.1	13.6	13.2	10.3	8.7
Cash generation	24.2	45.6	30.5	25.7	14.5	19.6	27.1	21.5	18.1	23.0
Capital spending	39.1	20.4	61.0	20.0	29.8	29.3	9.1	12.1	21.9	26.3
Dividends on common shares	1.2	2.5	1.2	0.8	0.5	3.0	6.0	3.0	3.0	4.5
per share \$	0.60	1.25	0.60	0.38	0.25	1.50	3.00	1.50	1.50	2.25
Preferred dividends	3.0	—	—	—	—	—	—	—	—	—
per share \$	1.52	—	—	—	—	—	—	—	—	—
Financial position										
Working capital	91.7	84.4	77.3	55.1	54.8	57.0	70.2	59.4	52.8	42.3
Investments	29.2	16.7	8.3	5.8	10.6	11.6	6.4	6.0	5.6	6.5
Net fixed assets	150.4	133.0	138.3	109.7	105.6	90.5	79.5	84.0	86.8	75.4
Other assets	26.5	22.8	29.7	7.5	5.0	4.4	4.1	5.6	6.8	5.8
Financed by										
Capital stock	80.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Retained income	117.8	120.6	105.0	95.2	88.5	88.2	83.6	75.3	72.2	70.3
Long-term debt	93.7	99.1	112.7	48.1	51.6	37.6	38.3	40.1	40.9	22.0
Other	6.3	7.2	5.8	4.8	5.9	7.7	8.3	9.5	8.9	7.8
Other data										
Salaries, wages and benefits	90.5	81.3	61.6	51.0	45.1	39.5	34.3	33.2	32.5	29.6
Number of employees at year-end	5,973	6,034	6,187	4,856	4,414	4,273	3,799	3,722	3,976	3,911
Rubber and resin production, millions of pounds	859	1,034	1,135	985	856	801	732	685	617	593

NOTES:

- consistent with 1975 reporting, the 1974 data have been restated to reflect the company's share ownership in Petrosar on the equity basis.

- the "Loss on discontinued business" reflects the operating losses of the building systems division for 1975 and 1974.



Directors:

- ▼ **W. A. Dimma**, Toronto, Ontario
President, Toronto Star Limited
- A. John Ellis**, Vancouver, British Columbia
Chairman of the Board
Canada Development Corporation
- △ **Pierre R. Gendron**, Montreal, Quebec
President, Pulp and Paper Research
Institute of Canada
- △▼ **H. A. Hampson**, Toronto, Ontario
President and Chief Executive Officer,
Canada Development Corporation
- ▼ **D. Carlton Jones**, Calgary, Alberta
President and Director,
Hudson's Bay Oil and Gas Company Limited
- W. Ladyman**, Winnipeg, Manitoba
Member, Canadian Anti-Inflation Board
- D. C. Morrison**, Toronto, Ontario
Executive Vice-President
Canada Development Corporation
- △ **E. R. Rowzee**, Sarnia, Ontario
Chairman of the Board,
Polysar Limited
- △▼ **I. C. Rush**, Sarnia, Ontario
President and Chief Executive Officer,
Polysar Limited
- F. W. Sellers**, Winnipeg, Manitoba
President,
Spiroll Corporation Limited
- △ **D. C. H. Stanley**, Toronto, Ontario
Vice-President and Director,
Wood Gundy Limited
- *
△▼ **Ron W. Todgham**, Windsor, Ontario
President, Chrysler Canada Ltd.
- F. Cameron Wilkinson**, Vancouver, British Columbia
President, Wilkinson Company Limited

Officers:

- E. R. Rowzee**
Chairman of the Board
- I. C. Rush**
President and Chief Executive Officer
- R. S. Dudley**
Group Vice-President
Rubber and Latex
- G. F. Bentley**
Vice-President, Rubber
Europe and Rest of World
- G. Bracewell**
Vice-President, Finance and Planning
- E. J. Buckler**
Vice-President, Research and Development
- R. G. Frakes**
Vice-President, Plastics
- H. A. Graham**
Vice-President, Personnel
- J. H. Langstaff**
Vice-President, Rubber,
North and South America
- C. A. McKenzie**
Vice-President, Chemicals
- W. J. Dyke**
Secretary and Chief Legal Officer
- M. E. Erlindson**
Corporate Treasurer

* Mr. Todgham passed away December 26, 1975.

△ Member of the Executive Committee

▼ Member of the Audit Committee

Operating companies of the Polysar Group

CANADA

Polysar Limited Sarnia, Ontario (Corporate Headquarters)
Kayson Plastics Division Cambridge, Ontario
Com-Share Limited Toronto, Ontario
General Plastics Company Limited Cookshire, Quebec
Trent Rubber Services Limited Lindsay, Ontario

UNITED STATES

Mammoth Plastics Inc. Wellsburg, West Virginia
Polysar Inc. Akron, Ohio
Polysar Plastics Inc. Westport, Connecticut
Polytherm Division Middletown, New York
Decorative Components Division Forest City, North Carolina
Polysar Rubber Services Inc. Barberton, Ohio
Solar Chemical Corporation
Resin Division Leominster, Massachusetts
Polysar Latex Division Chattanooga, Tennessee

EUROPE AND REST OF WORLD

Bellaplast GmbH Wiesbaden, Fed Rep Germany
Bellaplast Nederland B.V. Vijfhuizen, Netherlands
Com-Share Limited London, England
Distribudora Adanac S.A. Caracas, Venezuela
Komfortplast GmbH Wiesbaden-Schierstein, Fed Rep Germany
Polysar Australia Pty. Ltd. Melbourne, Australia
Polysar Belgium N.V. Antwerp, Belgium
Polysar Deutschland GmbH Neu-Isenburg, Fed Rep Germany
Polysar De Venezuela Caracas, Venezuela
Polysar Do Brazil Produtos Quimicos Ltda. Sao Paulo, Brazil
Polysar Europa S.A. Brussels, Belgium
Polysar France S.A. La Wantzenau, France
Polysar GmbH Wiesbaden, Fed Rep Germany
Polysar Handelmaatschappij B. V. Amsterdam, Netherlands
Polysar International S.A. Fribourg, Switzerland
BRANCHES: Rio de Janeiro, Brazil; Tokyo, Japan; Barcelona, Spain
Polysar Italiana S.P.A. Milan, Italy
Polysar Skandinaviska A.B. Goteborg, Sweden
Polysar Technical Service Centre N.V. Antwerp, Belgium
Polysar (U.K.) Limited Guildford, England
Société Française Polysar Paris, France

OTHER INTERESTS

Bellaplast Maschinenbau GmbH Heidesheim, Fed Rep Germany
Bellaplast Maschinenverkaufs A.G. Baar, Switzerland
Bellaplast Kunststoffverpackungen GmbH Altstätten, Switzerland
Bellaplast Kunststoffverpackungen GesmbH Vienna, Austria
Hules Mexicanos S.A. Mexico City, Mexico
Petrosar Limited Sarnia, Ontario, Canada